Kingdom of the Netherlands

Venture Capital Opportunities for Startup (Tech) in New York

Consulate General of the Kingdom of the Netherlands in New York
For specific questions about New York and the Northeastern US and support, please contact us at nyc-ea@minbuza.nl

Introduction:

NYC's tech community is booming, and a PWC Money Tree report shows that over $ 17.2 billion has been invested in startups in NYC in 2020 alone.
This was a 20% increase compared to 2019 and NY hereby remains second after Silicon Valley's $47.2 billion-dollar investment scene (Crain's NY, 2020). The growth is fueled by an enormous increase in venture capital investments as VCs from San Francisco are growing and moving parts of their operations to NYC and international funds are getting foot on the ground in NYC. However, still behind Silicon Valley in terms of investments, New York has outranked San Francisco as the world's best city to build a tech company, with the growing VC opportunities as only one of the reasons (Forbes, 2019).
Funding is important, as most startups need it in order to survive and to expand. Cash not only allows startups to live and grow, capital is also usually a competitive advantage in all ways that matter: hiring key staff, public relations, marketing and sales. As most startups will want to raise money, there are many opportunities in New York City.
This document summarizes the most important information entrepreneurs will need when they start to look for funding in New York City.

The NY VC scene: what makes it different?

- Most funds in NY are relatively **small, between $10 million and $100 million**. There is an incredible number of VCs, all with different strategies. To get a clear overview, Morgan Polotan from Genecast Ventures launched VC finder, where you can find most of the VCs operating in NYC and their stage and focus area.
- Focus Area: because of the large deal flow and the emphasis on seed funds, the NY VCs differentiate themselves by having **very specific focus areas**. Make sure to know what focus area your startup belongs to, so you can save valuable time searching.
- **NY VCs are more than just money**, they consider themselves as platforms for growth as many of them employ large teams to help in areas such as recruitment, marketing, PR, design support and more.
- Many VCs only allow a certain amount of their portfolio to be from **Europe**. Therefore, it is important to know that you are a good match with certain VCs before you approach them and waste time and energy on a VC that was not a good fit to start with. However, there has been a change in the recent years and many VCs have a more international focus now than they had a few years ago.
- A good place to start your search for funding could be **NYC Tech Map,** this is a network visualization of different VC, Angels, Accelerators and incubators in New York City. (Read this report for more information).

Some Dutch founders found that because the US is so competitive, investors tend to mete out a fairer treatment to entrepreneurs. The investor market is more developed stateside, whereas there are not as many potential Dutch investors and, when it comes to terms, they are often "wanting a guarantee, of a 3-4 times return on investment" - Jeroen Wijering, Co-founder of JW Player

Tips and Tricks from investors:

- Almost all Angel investors and VC's consider the team to be the most important asset of every startups, and they will not invest in a team that they do not trust to successfully execute their strategy. Make sure you have a team that compliments each other and find a way to present your team well.
- Do not be too early, if you are not completely ready to make the step to VC, don't. It will cost a lot of time and energy, as once you receive the investment you are expected to grow fast. If you are not ready, it could potentially damage your team and startup.
- You have to be overly optimistic to make it in a city like New York. You will be rejected countless times and you need to keep believing in your own startup.
- Understand that Venture Capitalists expect returns at some point. In order to make a chance, know how you want to scale your business and when and how often you can provide returns. Often, quarterly returns are expected.
- Check out the following checklist before pitching to an investor!

It is important to stand out when speaking to investors and angels and to make sure that you are ready to make the step. Sometimes waiting can give you a big advantage.

"*We are now talking with some investors who also see it as a big plus if a company is able to demonstrate that they were able to transition to the US successfully. So, it opens up a lot more opportunities*" - Rainier van Rietschoten, Co-founder Veylinx

Accelerators :

Accelerators are probably one of the most useful investments opportunities for (early-stage) startups. An accelerator is program, usually between 1 month to a year, which completely introduced the startup to a certain ecosystem and provides mentorship and funding.

- Techstars: meant for startups from various industries and takes three months. You can receive around $100.000, - in funding.
- Entrepreneurs Roundtable Accelerator is a four-month accelerator that will also get you around $100.000, - in funding. ERA also hosts many interesting events, where startups that are not in the program are allowed to pitch. Visit the website for more information.
- UrbanX: is a 5-month program that invests up to $150.000, - in your startup for a varying amount of equity.
- US Edtech Accelerator is a three-month program that costs $5000, - and you are not required to give up equity which is a big advantage.
- Metaprop offers a five-month program that specializes in property tech startups.
- Blueprint Health is an accelerator program solely focused on health care startups. For 6% of your company you will receive 20.000 in funding for this three-month program.
- Benelux Catalyst is a month-long program created by the Belgian chamber of commerce, the Luxembourg representation in New York and the Consulate General of the Netherlands. This program is partially subsidized by the Dutch Consulate and requires no equity.

- YCombinator is possibly the most renowned accelerator program in the US which takes three months, they invest $150.000, - but most of all, have one of the largest networks.
- MassChallenge: is an accelerator based in Boston, which supports early-stage startups through a zero-equity competition-based model.

  Even though there are many opportunities in the US, fundraising is still difficult. Steven van Wel, co-founder of Karma, stated that his startup benefited hugely from the TechStars program and its network and recommends founders to do the same if they have the opportunity.

Note: most accelerators require equity to participate. This means that you partly lose control of your company. Think about the consequences of this decision before rushing into an accelerator program!

Female Investment:

Only 2.8% of total capital invested in the US is received by fully female-founded enterprises. Nevertheless, this number is increasing, and New York City has been the heart of this improvement and is currently the driver when it comes to investing in female founders (Business Insider, 2018). This has been reinforced earlier this year as Goldman Sachs, one of the most prominent investment banks in NYC, announced that it would not aid scale-ups who want to go public if it does not have at least one female board member (Reuters, 2020). As going public is a very relevant exit strategy for scale-ups, this will have an effect on many scale-up boards.
After San Francisco, New York is second when it comes to the amount invested in female founders. In 2019, $4.9 billion was invested in female founded startups, ranging over 645 deals (Pitchbook, 2020).

- Female Founders Fund is an early stage fund investing in startups with female (co-) founders.
- 37 Angels is a community for women angel investors who have funding rounds every two months.
- We Fund Ventures invests in technology startups founded by women and minority entrepreneurs.
- iFundWomen provides early-stage entrepreneurs with access to capital via crowdfunding and grants.
- Ellevest is a platform created for women, who have an investor approach that is focused on creating a positive impact on women.
- Girls who invest is a non-profit organization dedicated to increasing the number of women in portfolio management and executive leadership in the asset management industry.

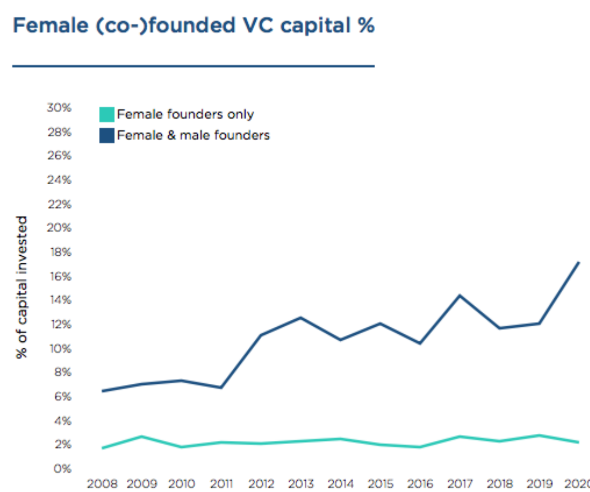

Figure 1: Source Pitchbook, 2020

In addition to the investors above, there is a fund in NYC that invest only in startups with minority (co-) founders:

- Harlem Capital Partners (HCP): is a NYC early-stage VC firm on a mission to change the face of investing in thousand diverse founders over the next 20 years.

VCs, Angels and their differences:

Angel investors and venture capitalists are both essential parts of the startup-funding ecosystem. Here is more information on both so you can make an informed decision.

- **Angel investors:** are high net worth individuals who usually invest in a very early stage of a startup, typically in exchange for convertible debt or equity. Angel investors can serve as a bridge between the financing a startup needs, and the capital needed later on. Angel investors invest with their own capital however, a person does have to be an accredited investor recognized by the Securities Exchange Commission (SEC).
  Pros:
  - ✓ Often willing to take bigger risk and invest in pre-evaluation startups
  - ✓ Less risk for the founder, as angel investors typically don't get their money back in case of a failed startup
  - ✓ Angel investors usually have a lot of knowledge about the ecosystem which could benefit the growth of the startup

  Cons:
  - ✓ As angel investors are usually early investors, they invest less than some VCs could. There is no limit on what a single angel investor would invest, but they are typically willing to invest up to $500.000, -.
  - ✓ Angel investors are purchasing a stake in the startup and will expect a certain amount of involvement and say as the startups continues to grow
  - ✓ This means a loss of control for the founder

➔ A good place to start would be the New York Angels' website, which can get you in touch with some of the most active angels in NYC

- **Venture capital:** firms invest other people's money into startups and small businesses.
  Pros:
  - ✓ The investments are relatively large, so this is a great option for startups that are looking to scale big and fast.
  - ✓ Unlike a loan, there is no obligation to pay it back.
  - ✓ VCs come to the table with business and institutional knowledge; they are also well connected and have diverse teams that will help your startup grow.

  Cons:
  - ✓ While you don't have to "pay back" the invested money, VCs do expect a return on their investment
  - ✓ This implies that your startup should be planning for some kind of exit, like an acquisition or an IPO. If that is not what you have in mind, VC might not be right for you
  - ✓ Sometimes, VCs require a majority share, which means you lose management control of your startup

Crowdfunding:

Crowdfunding is the opposite of mainstream approaches to business finance. Where traditional ways start with market research, prototypes and business plans, the crowdfunding model allows entrepreneurs to raise money without any of these steps in between. Crowdfunding can in some cases drastically speed op the funding process and has a few other benefits

- **Reach**: Through fundraising platforms, you can have access to thousands of accredited investors who can see, interact and share your fundraising campaign.

- **Presentation**: For crowdfunding to go well, founders really have to look at their business from a different point of view which can be very insightful
- **PR & Marketing**: Often, crowdfunding platform make it very attractive to share campaigns on social media which can lead to a great amount of exposure
- **Validation:** By presenting your idea on a crowdfunding platform you can have, your product validated and judged by the masses, which gives you an excellent idea whether there is a demand for the product or service you are trying to sell.

Family and Friends:

As shown in figure 1, before startups consider Angel investors or accelerator programs, most startups fund their initial growth by asking friends and family to invest. This "pre-seed" round usually involves investments from $10.000, - to $150.000, - and allows startups to get through the first few months of operation.

VCsbased in New York:

The following VCs are based in New York and are all open to early stage and startups so have a look!

- NYC Seed, which was funded to attract tech startups to NY to get startups up and running. They do not only help with funding but also help tech-startups gain free or inexpensive resources
- The Partnership Fund for New York City invests in innovative profit and nonprofit startups that will contribute to the future of New York Cit.
- Empire State Development's Division of Science, Technology and Innovation (NYSTAR) helps tech- entrepreneurs in New York get in touch with funding and resources that could help them to grow. New York State is running this program and is especially relevant for startups looking to collaborate with research and innovation institutes in New York.
- Union Square Ventures
- Insight Venture Partners
- Scout Ventures
- 5Lion Ventures
- Corigin Ventures
- General Atlantic
- FirstMark Capital
- Time Warner Investments

References used:

- https://www.businessinsider.com/startups-new-york-vs-silicon-valley-2018-5
- https://www.reuters.com/article/us-goldman-sachs-ipo-diversity/goldman-sachs-to-companies-hire-at-least-one-woman-director-if-you-want-to-go-public-idUSKBN1ZM2MK
- https://pitchbook.com/news/articles/the-vc-female-founders-dashboard
- https://www.netguru.com/blog/top-10-startup-accelerators-nyc
- https://www.forbes.com/sites/heathersenison/2019/02/06/its-official-new-york-city-outranks-san-francisco-as-worlds-top-tech-city/#60a4b2957941
- (link is almost 3 years old)
- https://techcrunch.com/2019/12/09/us-vc-investment-in-female-founders-hits-all-time-high/
- https://harlem.capital
- https://www.pwc.com/us/en/industries/technology/moneytree.html